

New Hampshire Housing Finance Authority



THE STATE OF HOUSING IN NEW HAMPSHIRE



February 2003

Summary

New Hampshire's economic growth over the last decade created many benefits for most of our citizens. It also generated a demand for housing that has not been met with an appropriate level of new production. The results are rising home purchase prices, record low vacancy rates, higher rents and, in general, a housing market which creates a significant affordability challenge for many of our citizens and a barrier to labor force development.

Businesses have experienced increased difficulty in recruiting and retaining employees who are unable to find reasonably priced housing. In this context, the lack of an adequate and diverse supply of housing is a limiting factor to economic growth. Where housing supply is constrained, economic growth or recovery will be slowed or stopped. Further, the current housing shortage is so significant that it is unlikely to be corrected through a short-term economic downturn.

While this issue affects nearly all segments of our state's population, those most severely affected are moderate and lower-income families seeking to purchase a home and very low-income families and seniors simply trying to find (or hold on to) a decent, affordable apartment. The social and personal impacts of this situation can be significant – especially for the most vulnerable members of our communities who face the very real prospect of homelessness.

There are a number of complex factors that contribute to the acute shortage of housing, and particularly affordable housing. They include builder capacity, financial risk and the availability of subsidies. However, one major factor often cited by housing developers is community resistance to residential development and the degree to which the implementation of zoning, planning and other regulatory policies has created artificial barriers to the private market's ability to create needed new housing. The amount, type and affordability of housing in our communities is greatly influenced by local decisions. Those decisions are based on established laws and policies whose application and interpretation are critical to the development of a balanced housing supply.

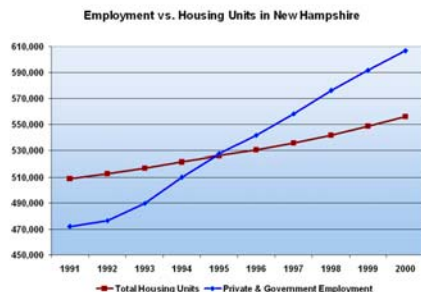
Broad public awareness of this problem and its ramifications is vital to our state's continued economic and social well-being. An adequate and balanced supply of housing must be seen as essential to the state's future and local decisions should take this reality into account.

The purpose of this booklet is threefold. First, to help the citizens of New Hampshire understand that an adequate supply of housing, affordable to people with different incomes, is an essential component of the state's economic and social infrastructure. Second, to urge citizens to participate in local and state decision making processes and to support public officials in their efforts to address the housing shortage. Finally, to urge business and community leaders to participate in housing advocacy.



Housing In New Hampshire

In the late 1980's New Hampshire, along with the rest of the Northeast and much of the nation, experienced a severe economic downturn. The housing sector was particularly hard hit, due to speculative over-building which resulted in excess inventory of available housing. As a result, purchase prices of homes plummeted, rents stabilized and vacancy rates increased.

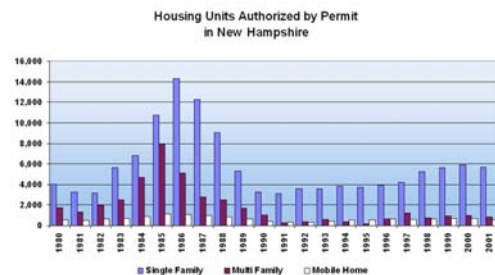


However, by 1994 the state's economy had begun to rebound and increases in economic activity led to employment growth, creating a labor shortage which could only be met through the immigration of new workers. In the last decade, New Hampshire's population grew by 11.4% – the highest percentage increase in New England.

Typically, economic growth, and especially employment growth such as that which New Hampshire experienced in the late 1990's, leads to housing development. Employment growth causes demand for new housing and the housing industry responds with new construction activity. During the first part of the state's economic recovery, the demand for housing could be met by using the existing surplus of housing. However, by the mid-1990's demand began to exceed the supply of housing, creating the seeds of New Hampshire's current housing shortage.

PRODUCTION SHORTFALL

While the need for housing has grown substantially, housing production has increased only slightly. In the 1990's New Hampshire produced less than one-half the number of housing units per 1,000 jobs created than in either of the previous two decades.



In fact, throughout the last decade, production of all types of housing has lagged well behind the pre-1990 experience. This is especially true with regard to **multi-family housing**, where it appears that (after taking into consideration demolition and conversion of rental condominium units to ownership) the net increase in rental housing units between 1990 and 2000 was only 800 units.

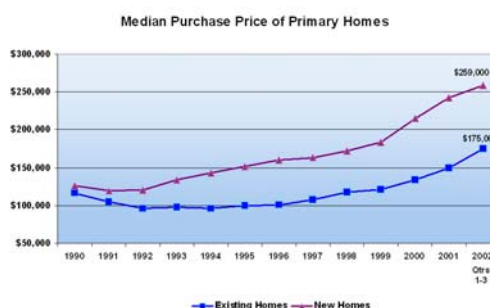


Demand for rental housing has outpaced the creation of additional units, thus rent levels have been rising in direct response to this increasing demand. **Vacancy rates** are at record lows (less than 1% or "turnover" rate in most areas). This situation has created a true rental housing shortage in most areas of the state, and especially in the southern tier. In fact, in 2000 New Hampshire would have needed 5,300 more vacant rental housing units to meet the national rental vacancy rate of 6.8%.

Since less than 1,000 rental units were produced in 1999, achieving this vacancy rate would have required a five-fold increase in the number of units built.

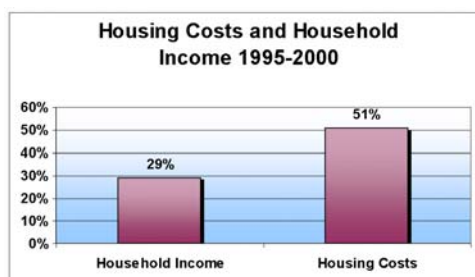
The inventory of **single family homes** is also at record low levels. Again, to have met the national average vacancy rate in 2000 (1.7%), New Hampshire would have needed 2,500 more vacant single family homes – or 50% more than the total number constructed in that year statewide.

Although the production of single family homes has recovered from the slump of the early 1990's, new construction has mainly been in more expensive homes. In addition, demand for homes that was fueled by the state's growing work force has driven up purchase prices. This increase in purchase prices is directly related to a shortage of both single-family and multi-family housing and has created an affordability barrier to home ownership for many low to moderate-income families.



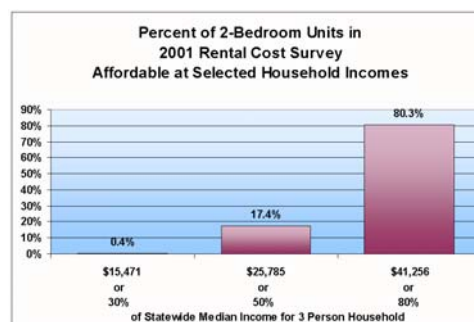
AFFORDABILITY GAP

It is a simple fact of economics that when demand for a product exceeds supply, prices will rise. Thus, even as most New Hampshire families experienced significant increases in their incomes during the late 1990's, housing costs increased at a much more rapid pace, creating a significant **affordability gap**.



Purchase prices have been increasing steadily since 1993 (a 77% increase to October 2002). For the year prior to October 2002, New Hampshire's purchase prices for single family homes increased by 9.96% – 62% higher than the national average. The price increase is especially significant in the area of new construction.

In general, purchase prices have been rising at a level that makes home ownership a significant challenge for low and moderate-income households. The ability of households at 80% and even 100% of median income to purchase a home has been declining steadily since 1995. For over 100,000 low-income households (those at 50% of median income or less – or \$25,800 in 2001) the affordability challenge is even more significant as only 7.8% of the homes sold in 2001 would have been affordable to them.



As is the case with purchase prices, **rents** have been rising steadily since 1995 and now reflect, on a statewide basis, a median gross rental cost for a 2-bedroom apartment of \$884 – an amount which requires a household to have an income of \$35,360.

Rent levels have risen throughout the state, however, three counties – Merrimack, Hillsborough and Rockingham – show the highest rent levels. These counties are also the location of almost two-thirds of the state's rental housing.

Just as is the case with single family homes, this housing shortage has created a significant affordability gap for many New Hampshire families. Only 11.7% of the rental units statewide are affordable to households at 50% of median income, and **virtually no units are affordable to extremely low-income households** (those at 30% or less of median).

Impacts

New Hampshire's housing challenge affects many people in different ways. The shortage of rental housing, and particularly of moderately-priced rental housing, has enormous impacts on lower-income households. One aspect of this is long waiting lists for government-assisted housing. Another is an **increase in homelessness** and of families living in temporary housing (such as motels) or in emergency shelter facilities – often at significant cost to local governments. The lack of available and affordable housing also makes it more likely that those households that are placed in temporary or emergency housing will need to remain there much longer.

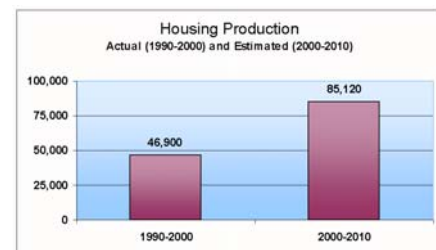


Although these effects are significant, other populations are also impacted. For instance, more moderate-income growing families may be forced to put off home ownership and its benefits indefinitely, and for many employers the housing shortage may mean an **inability to attract new workers**, hampering or reducing operations.

Each of these outcomes is important, however, the last has the potential to significantly impact the state's long-term economy.

HOUSING INFRASTRUCTURE

New Hampshire's economic well-being requires an adequate and balanced supply of housing to support a diverse and growing workforce. In this sense, housing is just as much a part of the state's **economic infrastructure** as roads, utilities and telecommunications systems. Without an adequate and balanced supply of housing, or the ability to produce it, the state's economy simply cannot continue to grow.



For instance, to match the job growth of the 1990's New Hampshire would need to add more than 85,000 housing units over the next decade, or almost twice the number of units added in the 1990's. **Put another way – if we continue to produce housing at recent levels of activity our future job growth could be half that of the 1990's.**

Production Constraints

Typically, housing production will follow economic growth, as housing producers will strive to satisfy the demand created by an expanding labor force. The production shortfalls of the 1990's point to constraints that prevent the market from reacting in a timely and efficient manner. Those constraints include:

- The capacity of the housing development industry whose labor force dropped to half of its size in the late 1980's;
- Changes in banking and contractor attitudes regarding risk as they avoid the extended build-out periods of large multi-family projects and thus avoid the risk of market contraction during a longer than expected economic expansion;
- Relatively high construction costs;
- Less favorable tax benefits resulting from federal tax law changes;
- Limited subsidies from the federal government; and,
- Community resistance to residential development.

Housing developers most often point to **community resistance** as the primary reason that housing production in New Hampshire has not kept pace with demand. Efforts to limit housing development and growth in many communities are related to diverse and often valid concerns, including the desire to maintain the historic or rural character of some communities, the desire to manage vehicle traffic and protect important environmental resources, and especially, concern about the potential impact of housing development on demand for municipal services, particularly the cost of public education.

Residential development is perceived as not paying its share of such costs. While municipalities often seek to accommodate a variety of non-residential uses which are viewed as net property tax generators, housing for families with children — the core of the labor force — is often unwelcome. Although there has been no widespread imposition of new development controls by municipalities, developers perceive slower and more meticulous project reviews and the imposition of impact fees as impediments to residential development. The application of local zoning ordinances, growth control measures, impact fees and other municipal regulations (whether intended or not) have created a major barrier to the construction of low cost single family housing, multi-family rental housing and manufactured housing parks. Beyond this, many of the regulatory strategies used to discourage housing production have actually resulted in sprawl and other forms of development with negative consequences for our communities.

Chart Sources:

Chart 1: U.S. Department of Labor and the New Hampshire Office of State Planning

Chart 2: New Hampshire Office of State Planning

Chart 3: New Hampshire Housing Finance Authority, 2002 Rental Housing Cost Survey

Chart 4: New Hampshire Housing Finance Authority

Chart 5: Applied Economic Research

Chart 6: New Hampshire Housing Finance Authority, 2002 Rental Housing Cost Survey

Chart 7: New Hampshire Division of Health and Human Services

Chart 8: Applied Economic Research

Potential Responses

The lack of an adequate and balanced supply of housing poses a significant threat to the economic health of New Hampshire and to the well-being of many of our families. Addressing this challenge requires that a broad range of individuals and organizations become engaged in efforts to change community attitudes towards housing development.

INFORM AND EDUCATE

It is critical that the broadest number of citizens – representing the public and private sector – be aware of the full scope of facts related to our state’s housing needs, and it is particularly important that as many of our citizens as possible understand the nature, origins and potential implications of the housing challenge we all face.

SUPPORT APPROPRIATE HOUSING DEVELOPMENT

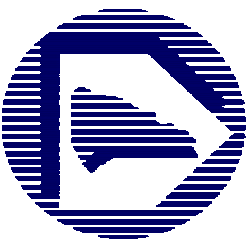
Most public policies that affect the production of new housing – and especially housing which will serve the needs of low-income people – are formulated at the local community level. In New Hampshire, these policy decisions are made through processes which include substantial opportunity for participation by business and community leaders and private citizens. It is vital that the importance of an **adequate and balanced housing supply**, and its relationship to the continued economic and social well-being of the state, be included in these local decision-making processes. Local policy makers need to know that their constituents want a balanced approach to housing development and need to be supported by the public when they act to encourage reasonable housing development initiatives.

Local regulatory decisions have enormous impact on the amount, type and affordability of housing available in our communities. Although these decisions are guided by established law and policy, the application and interpretation of policy at the local level is a critical part of the housing dynamic. Given the participatory, public nature of New Hampshire’s local decision-making processes, these local permitting and other regulatory decisions can be affected by the nature and type of public comment such bodies receive. Put simply, if the only public comment received regarding a specific housing proposal is negative, it is likely that discretionary decisions regarding this proposal will also be negative. When they consider such proposals, local officials need to know that many citizens do indeed understand the need for appropriate housing development and will support regulatory decisions that favor such development.

PARTICIPATE IN THE PROCESS

Besides individual input in public policy-making processes – such as through participation in public hearings – citizens can impact our state’s housing environment by helping to form or participating in **local housing advocacy organizations** which involve business and community leaders and concerned citizens. Such groups have been formed and are active in many New Hampshire communities. Contact information for these groups, as well as additional resources on the housing crisis in New Hampshire, can be found on NHHFA’s Housing Awareness Project web site at www.nhhfa.org/hap.

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New Hampshire Housing Finance Authority is a non-profit, public benefit corporation established by the State Legislature. The Authority operates a number of programs designed to assist low and moderate income persons to obtain housing.